

**REPORT OF THE AUDIT OF THE  
ELLIOTT COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**ELLIOTT COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2006**

The Auditor of Public Accounts has completed the Elliott County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$8,008 from the prior year, resulting in no excess fees as of December 31, 2006. Revenues decreased by \$10,502 from the prior year and expenditures decreased by \$2,494.

**Report Comment:**

- The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments
- The Sheriff Should Prepare And Report Wages Correctly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive  
The Honorable Ronald Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Elliott County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Charles Pennington, Elliott County Judge/Executive  
The Honorable Ronald Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments
- The Sheriff Should Prepare And Report Wages Correctly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Elliott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

February 20, 2007



ELLIOTT COUNTY  
RONALD STEPHENS, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants		\$	12,677
State - Delinquent Taxes			18
State Fees For Services:			
Finance and Administration Cabinet	\$	35,612	
Cabinet For Human Resources		221	35,833
Circuit Court Clerk:			
Sheriff Security Service		1,602	
Fines and Fees Collected		30	
Court Ordered Payments		1,870	3,502
Fiscal Court			75,280
County Clerk - Delinquent Taxes			1,258
Commission On Taxes Collected			39,630
Other Fees On Taxes Collected:			
Sheriff's Add-On Fees		8,179	
Advertising Fees		635	8,814
Fees Collected For Services:			
Auto Inspections		1,575	
Accident and Police Reports		195	
Serving Papers		4,166	
Carrying Concealed Deadly Weapon Permits		2,525	8,461
Other:			
Bond Refund		76	
Miscellaneous		124	200
Interest Earned			167
Total Revenues			185,840

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY  
RONALD STEPHENS, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	23,101
Part-Time Salaries		27,728
Other Salaries		16,998
Overtime		9,069

Employee Benefits-

Employer's Share Social Security		12,466
Employer's Share Hazardous Duty Retirement		28,757

Contracted Services-

Advertising		2,113
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Materials and Supplies-

Office Materials and Supplies		1,124
Uniforms		852

Other Charges-

Fiscal Court Fees Collected		1,690
Dues		655
Postage		265
Unemployment Insurance		745
Phone		3,825
Bond		508
Carrying Concealed Deadly Weapon Permits		1,725
Miscellaneous		128

\$ 131,749

Capital Outlay:

Office Equipment		603
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Total Expenditures

132,352

Net Revenues

53,488

Less: Statutory Maximum (Note 7)

53,488

Excess Fees

\$ 0

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Lease

The Sheriff's office was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$60 for 60 months to be completed on July 20, 2010. The total remaining balance of the agreement was \$3,420 as of December 31, 2006.

Note 5. Grant

The Sheriff's office received \$12,677 as part of Fivco Area Drug Enforcement (FADE) Task Force Grant. The Sheriff disbursed \$12,677 for overtime worked and matching payroll expenses. The grant balance was zero at December 31, 2006.

Note 6. Contingencies

In the case of Jeffrey Flaughner v. Elliott County Fiscal Court, et al., United States District Court, Eastern District of Kentucky, Northern Division at Ashland, Civil Action No. 0:06-CV-00161-DLB, the Elliott County Sheriff has been sued as a result of an incident that allegedly took place on September 2, 2006, when Mr. Jeffrey Flaughner alleges that he was prevented from participating in the Big Sandy Tobacco Festival Parade, thereby violating his first amendment right of expression. Mr. Flaughner also contends that he was illegally arrested and imprisoned and that his Fourth and Fourteenth Amendment rights were violated as a result of the actions of the Sheriff and other individuals. Discovery in this matter has just begun, but the Sheriff does face some exposure if the court would find that his actions resulted in Mr. Flaughner's inability to participate in the parade and therefore violated Mr. Flaughner's civil rights.

Note 7. Subsequent Event

On February 9, 2007 the Elliott County fiscal court contributed \$10,900 to the Sheriff's office. The Sheriff used this amount to pay his remaining statutory maximum salary.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive  
The Honorable Ronald Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Elliott County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated February 20, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Elliott County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

- The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments
- The Sheriff Should Prepare And Report Wages Correctly

The Elliott County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Elliott County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 20, 2007

## COMMENTS AND RECOMMENDATIONS



ELLIOTT COUNTY  
RONALD STEPHENS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collects, deposits, and records all receipts. In addition, the bookkeeper prepares all bank reconciliations. In our judgment, these control deficiencies could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's Office implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Sheriff should reconcile reports to source documents and receipts and disbursements ledgers
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

*Sheriff's Response:* None

STATE LAWS AND REGULATIONS:

The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments

The Sheriff was paid his salary in varying amounts throughout the calendar year without receiving the salary set forth in KRS 64.5275 during 2006. The final amount of 2006 statutory salary was not paid until February 9, 2007. KRS 64.535 requires the Sheriff to "receive a monthly salary of one twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275" (statutory maximum). We recommend the Sheriff's salary be paid in accordance with KRS 64.535.

*Sheriff's Response:* Due to lack of fees collected by the Sheriff's office, I receive my salary after tax collection begins in October and run my office with fees collected until then.

**Auditor's Reply:** The Sheriff may be entitled to receive an advancement from the Kentucky Finance and Administration Cabinet to defray official necessary expenses of his office, including his salary.

ELLIOTT COUNTY  
RONALD STEPHENS, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006

The Sheriff Should Prepare And Report Wages Correctly

The Sheriff was paid in varying amounts throughout 2006 with gross wages including retirement reported on his W-2 as \$53,488, which appears to be the actual amount of salary paid during the year. The income reported to the Internal Revenue Service, Kentucky Revenue Cabinet, and the Kentucky Retirement System was \$64,388, which is the amount he should have been paid according to the schedule set forth for the Sheriff in KRS 64.5275. The amounts erroneously withheld from his payroll check were based on the statutory salary schedule. The Sheriff should have reported on the salary paid and withheld based on his actual gross pay. We recommend the Sheriff immediately seek professional tax guidance to correct these payroll issues by amending the appropriate reports to the IRS, DOR, KRS, and SSA. We are referring this to the Internal Revenue Service, the Department of Revenue, and the Kentucky Retirement System for review.

*Sheriff's Response: In the future we will only report the withholdings when check is received.*

PRIOR YEAR:

- The Sheriff's Office Lacks Adequate Segregation Of Duties – Repeated.

